Introduction

Economic liberalisation is a process which has been set into motion in many developing countries in the two recent decades. This process which has been implemented from 1989 is not a new policy in Iran. The economy of Iran was guided by liberalism under the Shah regime before Islamic Revolution. After the Islamic Revolution (IR), the Islamic Republic of Iran went towards economic conservatism specially during the war between Iran and Iraq. In this period the government controlled foreign trade, took over the membership and management of large financial institutions, industries and agricultural lands, banking system and heavy and core manufacturing companies like metallurgic units and automobile factories.

In addition, the government selected the policy of direct price control in many of primary materials, intermediate goods and consumer commodities. Further, the government fixed the rate of forex at a low level official rate in all these years despite the fact that this rate was very high and growing in the free or black market.

This governmentalisation was done due to the belief that such policies would promote economic justice and will improve income distribution. In addition, some difficulties due to the war strengthened these policies. For example, during the war quotas were fixed for some basic goods like food, oil, sugar, etc. These policies led to concentration of economic power, loss of efficiency and created some problems in the economy like reduction of GNP which was the most important of them. For greater clarity, we can divide these 8 years of conservative period into two different periods. In
Introduction

Table No I.1

Growth Rates of GDP By The Sectors

At 1982 Constant Prices

<table>
<thead>
<tr>
<th></th>
<th>Average Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1979-84</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.9</td>
</tr>
<tr>
<td>Oil</td>
<td>-8.5</td>
</tr>
<tr>
<td>Manufacturing &amp; Mining</td>
<td>7.8</td>
</tr>
<tr>
<td>Water Electricity &amp; Gas</td>
<td>7.1</td>
</tr>
<tr>
<td>Construction</td>
<td>3.3</td>
</tr>
<tr>
<td>Services</td>
<td>3.7</td>
</tr>
<tr>
<td>GDP</td>
<td>1.9</td>
</tr>
</tbody>
</table>


the first period i.e. From 1979 to 1984, according to the following table the average annual growth rate of GDP was only 1.9%¹ against more than 20%² in the previous 5 years. It should be noted that there was a high level forex revenues in all these years (around US $ 20 bn).

In the second period i.e. : from 1985 to 1988 there was a sharper reduction in GDP (at 1982 constant prices) at the annual rate of -7.3 percent due to 17.5% and 19.1% decreases in construction and services sectors respectively whereas the other sectors had


² Eghtesad-e-Iran (Economy of Iran), E-Razzaghi, 3rd Edi, p.199.
Introduction

slightly positive growth. In addition, the state economic units had suffered loss of

Figure No. 1.1
Growth Rates of GDP and Different Sectors of Economy of Iran

efficiency and most of them had losses in every year.

Furthermore, fixed exchange rate policy had created some big problems like budget deficit, increase of imports and stagnation in non-oil exports. The amount of budget deficit, imports and non-oil exports of the country are shown in the table no 2. According to this table, the share of budget deficit out of total government budget had risen from 23% in 1979 to 50% in 1988 while the amount of imports had increased from U.S. $9.70 bn in 1979 to $14.50 bn in 1984 but it decreased after this year due to a noticeable reduction in oil revenues.

In addition we can clearly see that the amount of non-oil exports had come down from $0.8 bn in 1979 to 0.4 in 1989 but it had climbed to 1.0 due to some changes in forex rate to boost non-oil exports and to compensate for the above mentioned reduction. The inflation rate was high and most of the goods were very expensive and the direct price control policy did not succeed to reduce the price level. The annual inflation rate had been
Introduction

about 19% in these years on the average.

Table No I. 2

The Amount of budget Deficit, imports and Non Oil Exports During the Years 1979 to 1988

<table>
<thead>
<tr>
<th></th>
<th>1979</th>
<th>80</th>
<th>81</th>
<th>82</th>
<th>83</th>
<th>84</th>
<th>85</th>
<th>86</th>
<th>87</th>
<th>88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Def Percentage of size of the budget</td>
<td>23</td>
<td>42</td>
<td>35</td>
<td>23</td>
<td>25</td>
<td>19</td>
<td>19</td>
<td>46</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Imports $bn</td>
<td>9.7</td>
<td>10.8</td>
<td>13.5</td>
<td>11.8</td>
<td>18.1</td>
<td>14.5</td>
<td>11.4</td>
<td>9.4</td>
<td>9.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Non Oil Exports $ bn</td>
<td>0.8</td>
<td>0.6</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.9</td>
<td>0.9</td>
<td>1.2</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Sources: ERBS, years 1983, 86 & 88

The government of Iran has been changing the course of the economy since 1989, after the war with Iraq, when new social and economic conditions were found to have emerged. The most important of these condition's were 1-the bad economic condition, as we already mentioned, led to a general belief saying that the country needed a new economic policy under which the governmental controls and the limitations on economic activities should be reduced and 2- in the above year, Mr Hashemi Rafsanjani who strongly supported the liberalisation came to power through a general elections as the president of Iran. In this new era, the power of the president was strengthened because the constitution of I.R. Iran was reviewed and post of the prime minister was abolished so that, the president could perform the role of prime minister also.

The liberalisation process has been an essential feature of the new economic policies. Privatisation in most productive sectors, marketization specially in commodity
Introduction

Figure No L 2
The Amount of budget Deficit, imports and Non Oil Exports During the Years 1979 to 1988

Markets and devaluation of national currency were the most important of these new policies. As a result of the above mentioned policies, the government expected important changes and transformations in different economic sectors like industry and mining, agriculture, oil and gas industry, infrastructure, etc. We will survey these policies and their effects in different sectors of the economy of Iran in this research.

This policy lasted until 1994 in which some adjustments were made owing to some problems specially a high level inflation rate. The policy of direct price control were executed in many cases again and the forex rate was fixed again although the new rates were not much lower than the free market rates. These basic changes weakened the liberalization process and created a different economic conditions so the duration of this survey will be the years between 1989 to 1994.
Introduction

A Preview Of Chapters

The topic of this thesis leads us to survey all the sectors of the economy of Iran to examine the impact of liberalisation on Iran's economy. Normally, productive sectors are divided into four sectors i.e. Industry and mine, agriculture, oil and gas and some parts of infrastructural sector like water and electricity generation and so these sectors form four chapters of this research. Furthermore, we will discuss foreign trade sector and social justice after liberalisation in the next chapters. Although monetary sector is not a productive sector but it is clear that it has a huge impact on any economic programme. So we will discuss the performance of this sector and its changes due to liberalisation policies in another chapter. In addition, it is necessary to know why and how the government of Iran implemented main economic liberalisation policies i.e. Privatisation, marketization and new foreign exchange rate policy. Therefore, our first chapter is allocated to investigation of these three policies. It goes without saying that any economic survey is not completed if it does not discuss levels of and changes in macro economic indices like GNP, GDP national consumption, national saving and investment, government budget etc. We will discuss these indices in the second chapter of this thesis. Our characterization, therefore, is as follows:

Chapter 1: Economic Liberalization Policies

As mentioned earlier, economic liberalization in Iran is done through execution of
Introduction

three main policies which are privatisation, marketization and foreign exchange rate policy. In this chapter we will discuss performance of the government in these three areas. For instance, we will see how the government privatised the public companies and whether it achieved its target, if not what was the reason(s) for its failure?

Chapter 2: Macroeconomic Indices and Government Budget

Changes in macro economic indices like GNP, GDP and national consumption demonstrate the general impact of economic policies on the economy of each country. Thus, in order to obtain some preliminary results about the impacts of new policies on the economy of Iran, we will survey these changes during the years in which these policies have been executed. The main indices discussed in this chapter are GNP, GDP, national consumption, saving and investment, government budget specially sources of the government revenues, changes in its expenditures and budget deficit.

Chapter 3: Agricultural Sector

After IR every Iranian government has seriously and specially paid attention to the agricultural sector particularly due to some political reasons. We know that Iran has had many political problems with USA so the country expected some sanctions and economic embargoes. It is natural that in such cases agricultural goods are very important and the country has always attempted to reach a self sufficiency in this sector particularly in basic goods. This chapter will survey the agricultural sector from the aspects of production and efficiency.

Chapter 4: Manufacturing and Mining

Because the data on industry and mining sectors are introduced together and
Introduction

sometimes mixed in the main data sources about the economy of Iran, we will survey production and investment in these two sectors in the same chapter. Furthermore, in order to avoid a separate chapter, this chapter includes investigation of construction sector too.

Chapter 5: Oil Sector

Iran has been an oil revenue based economy in the 20th century specially after the year 1972 in which the world price of crude oil remarkably increased and consequently the oil revenue of the country rose excessively. So oil and gas became more and more important in the economy of Iran and the oil revenue has played an essential role in economic development of the country. Due to this important role, oil and gas have found a separate place in shape of an independent sector in the economic literature of Iran. In this thesis, we also fall in line with the above mentioned literature and separately discuss this sector in chapter 5. Our argument in this sector will be about changes in production of crude and refined oil and gas and new investment in this area under the liberalisation policies.

Chapter 6: Infrastructural Sector

Infrastructural sector of Iran is divided into four subsectors in this thesis. These subsectors are electricity, water, road and transportation and finally communications; we will look into the changes in the production and investment in these subsectors.

Chapter 7: Foreign Trade

There were two main goals which Iranian government has tried to achieve through implementation of liberalisation policies in this sector. Boosting of non oil exports to decrease the dependency of Iran's economy on oil revenues is the first goal which has been
Introduction

an essential and strategic aim for all the governors of Iran specially after I.R. The second aim is a decline or at least rationalisation of imports because there has been a general belief that in the previous periods imports had been encouraged and every imported commodity was preferred over domestic goods due to a high forex revenue and specially forex rate system. In this chapter we will survey the impact of liberalisation policies on improvement of this sector and on achievement of these two goals.

Chapter 8: Money and Banking

It goes without saying that monetary policies play in essential role in success or defeat of every economic policy. In this chapter we will pay attention to this important matter and will illustrate the impact of new monetary policies on the monetary and real sectors of the economy. It is clear that monetary investigations includes the performance of banking system which is included in the topic of this chapter.

Chapter 9: Income Distribution

The last chapter of this thesis is allocated to investigation of the impact of newly implemented economic policies on social justice. Our survey will be done through discussion about the most important indices in this area like unemployment rate, minimum wage and salary, inflation rate and some indices about income distribution like Gini coefficient, etc.

Chapter 10: General Conclusion And Summary

The thesis will be ended by a general conclusion about economic transformations in Iran due to implementation of liberalization policies.
Introduction

Existing Literature

Because the liberalization policies in Iran are recent policies, not much work has been done to study the implications either in Iran or elsewhere specially in English language. There are some reports issued by institutions under the United Nations management like World Bank, International Monetary Fund and some other institutions in English language. In addition, some Iranian economic and statistical centers like Central Bank of Iran and Iran statistical Centre regularly publish annual and seasonal reports about economy of Iran.

There are more data and analysis about the subject under survey in Farsi language. Some official centres and organisations regularly issue magazines and bulletins about economy of Iran. Economic Report and Balance Sheet (ERBS) issued by Central Bank of Iran is the main one while Iran statistics Centre; Plan and Budget Organization and Iran customs organization also publish annual reports. Furthermore, there are a notable number of articles about different aspects of liberalization and their impacts in economic magazines and papers of Iran in native language which all will be used as the sources of for this thesis.

There are two important explanations which should be mentioned at the end of this introduction. First, Iran has been executed a five year social, economic and cultural plan just in the same period of our survey. Our survey does not include this plan because some main economic policies like new forex rate policy were not predicted in this plan while they had a basic effect on the transformations which happened within the period.
Introduction

Second, the date used in this research are based on Iranian year which starts from the 20\textsuperscript{th} of march to 19\textsuperscript{th} of march in the next Christian year. For example the year 1368 (first year of the period) is equal to 20 march 1989 to 19 march 1990. We use the year 1989 instead of 1368 in brief.